2011 Annual Report

Ontario Financing Authority

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Mandate

The Ontario Financing Authority (OFA) was established by the *Capital Investment Plan Act, 1993* (CIPA), and performs the following activities:

- conducts borrowing, investment and financial risk management for the Province of Ontario (the Province);
- manages the Province's debt;
- provides financial and centralized banking and cash management services for the Province;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies in borrowing and investing;
- acts as an intermediary for the Province in lending to certain public bodies; and
- invests on behalf of some public bodies.

The OFA also provides a broad range of financial services to the Ontario Electricity Financial Corporation (OEFC).

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Statement from the Chair and the Chief Executive Officer

Ontario successfully completed its second largest annual borrowing program in 2010–11 despite continuing challenges in global financial markets. Over the past year, as domestic borrowers have shown a strong preference for longer-term maturities, Ontario has been able to extend the term to maturity of its debt and take advantage of the lower interest rate environment. This allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt (IOD) costs.

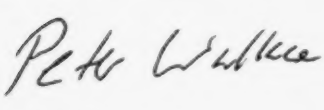
We raised $39.9 billion on behalf of the Province and Ontario Electricity Financial Corporation, completing the long-term borrowing requirements for the fiscal year. The borrowing program met or exceeded the performance targets for domestic and foreign borrowing. Total savings relative to the performance benchmarks for money market and debt management activities were $14 million.

In 2010–11, the OFA assisted ministries in implementing cost-saving measures for program payments. The OFA also supported the government's priorities by providing financial advice and services to a number of public sector organizations. The OFA continued the review of business cases for borrowing requests from public bodies, such as colleges, school boards and Crown corporations. This resulted in loans to public bodies totalling $1.6 billion. We also provided financial advice on government initiatives related to the electricity sector and a loan guarantee program to facilitate Aboriginal participation in energy projects. The OFA continued to provide analysis and advice in respect of a number of Infrastructure Ontario projects. The OFA supported the development and implementation of the Ontario Clean Energy Benefit (OCEB).

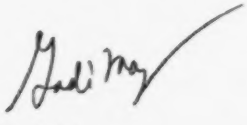
In 2011–12, the OFA will continue to provide cost-effective borrowing, debt management and other financial services for the Ontario government. The long-term borrowing requirement is forecast at $35.0 billion. To meet our borrowing requirements, we will continue to be flexible, monitoring domestic and international markets, issuing bonds in different terms and currencies and responding to investor preferences. Diversification of borrowing sources will continue to be a primary objective in 2011–12. Depending on market conditions, the OFA plans to borrow at least 60 per cent in the domestic market.

We will also continue to engage in public-sector financing initiatives and provide advice and support on financial aspects of electricity sector developments.

We would like to thank the OFA staff for their hard work and the members of the Board of Directors for their advice and oversight during the fiscal year. We look forward to working with both staff and the Board in 2011–12.



Peter Wallace
Chair



Gadi Mayman
Chief Executive Officer

Management's Discussion and Analysis

Capital Markets Activities

Borrowing and Debt Management

Financial Reporting

Cash Management and Banking Services

Financial Advice

Management's Discussion and Analysis

This section details Management's discussion and analysis of the OFA's results in 2010–11 and its objectives for 2011–12.

Capital Markets Activities

Borrowing Program

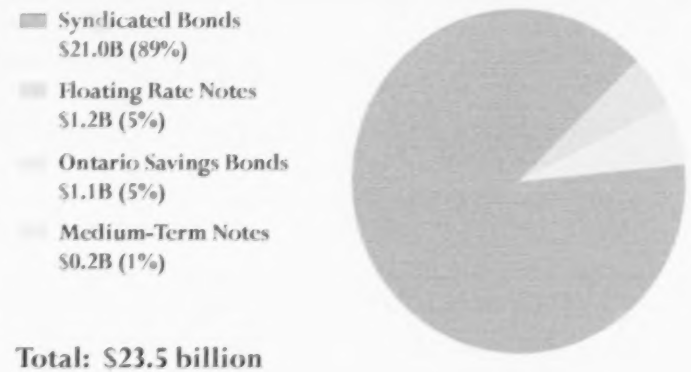
The long-term borrowing program for 2010–11 was $39.9 billion. The Province took advantage of favourable market conditions and robust demand for Ontario bonds to pre-borrow for 2011–12. Over the past year, Ontario was able to extend the maturity of its debt and take advantage of the lower interest rate environment. The weighted average term to maturity of long-term Provincial debt was 12.8 years, longer than the weighted-average term to maturity of 8.1 years for 2009–10.

Borrowing – All Markets

Total: $39.9 billion

Ontario was able to borrow almost 59 per cent in the domestic market in 2010–11, up from 49 per cent in 2009–10. In total, Ontario borrowed approximately $23.5 billion in the domestic market in 2010–11, $2.1 billion more than in 2009–10. This increase in domestic borrowing reflects strong global demand for Canadian-dollar assets, liquidity of Ontario benchmark bonds and continuing confidence in the Province of Ontario credit. Domestic borrowing was completed through a number of instruments, including syndicated issues, floating rate notes, Ontario Savings Bonds and medium-term notes.

Borrowing – Domestic Market



Total: $23.5 billion

In 2010–11, 41 per cent of borrowing ($16.4 billion) was completed in international capital markets. Bonds issued in foreign currencies were Global bonds in U.S. dollars and Euro Medium-Term Notes (EMTNs) in euros, Japanese yen, Norwegian kroner, U.K. pounds sterling, Swiss francs, Australian dollars and Hong Kong dollars.

Investments

The OFA manages the Province's liquid reserve portfolio to optimize investment returns and to ensure sufficient funds are available to meet cash requirements. The average level of daily liquid reserves in 2010–11 was $19.4 billion, net of collateral. In the normal course of business, the Province may pledge or receive collateral for financial and derivative transactions and repurchase agreements.

The OFA also invests on behalf of certain public bodies to help increase their returns by streamlining investment processes and reducing investment costs. In 2010–11, the OFA provided investment services to a number of agencies, boards, commissions and other public bodies, including Infrastructure Ontario (IO), the Pension Benefits Guarantee Fund, Ontario Trillium Foundation, Ontario Capital Growth Corporation and the Deposit Insurance Corporation of Ontario. Total funds managed were $3.1 billion.

With Ontario Power Generation Inc. (OPG), the OFA continued to manage the investment activities of the OPG's Used Fuel Segregated Fund and the Decommissioning Segregated Fund established under the Ontario Nuclear Funds Agreement (ONFA). As at March 31, 2011, the combined market value of the funds was $11.7 billion compared to $10.5 billion at March 31, 2010 and $4.9 billion when the funds were formally established in 2003.

There are currently 21 external investment managers retained to invest ONFA funds in bonds, equities and global infrastructure. For the 12 months ended March 31, 2011, the funds' rate of return was 9.78 per cent, slightly behind the market benchmark of 10.19 per cent. Since inception, the funds have returned 6.78 per cent annualized, outperforming the long-term target annualized rate of return of 4.96 per cent. This target is a real rate of return of 3.25 per cent annually and is calculated by adding 3.25 per cent to the change in the Ontario Consumer Price Index.

Borrowing and Debt Management

The OFA manages the debt of the Province and OEFC.

Total debt, which represents all borrowing without offsetting financial assets, was $236.3 billion, interim as at March 31, 2011. As at March 31, 2010, total debt was $212.3 billion.

Ontario's net debt is the difference between total liabilities and total financial assets. Ontario's net debt was $217.3 billion interim as at March 31, 2011. This figure includes the broader public sector's (BPS) net debt of $13.5 billion. As at March 31, 2010, net debt was $193.6 billion, including $14.2 billion related to the BPS net debt.

Total Debt Composition

$236.3 billion

Prudent risk management policies and practices mitigate the financial risks inherent in managing large debt and liquid reserve portfolios. A variety of financial instruments, such as swaps and options, are used to manage exposures to fluctuations in interest rates and foreign currency exchange rates. The OFA uses derivatives for hedging purposes to manage its foreign exchange and interest rate risks. The OFA's derivatives policy does not permit the creation of leverage using derivatives. The Province's financial risks are dealt with on a continuous basis, and these risk exposures are marked-to-market daily and audited annually.

Risk management policies are reviewed annually and amendments are approved by the OFA Board of Directors (the Board).

Performance

The OFA monitors and measures the performance of the borrowing, debt management and liquid reserve programs. Total savings relative to the latter two performance benchmarks was $14 million in 2010–11.

Starting in 2010–11, the performance of the long-term fixed rate borrowing program was measured by comparing the all-in borrowing cost against the statistical distribution of benchmark interest rates observed during the year, with the program objective being to attain a low percentile rank. Domestic long-term borrowing achieved a 44.8 percentile rank, better than the target range of 45-55. Strategic foreign borrowing achieved a 61.5 percentile rank, within the target range of 50-80 percentile established for that program.

The debt management program's performance is evaluated based on a comparison of program savings to a risk-based performance target. In 2010–11, the debt management program realized a gain of $2 million.

The performance of liquid reserve investments is measured relative to the returns of a custom benchmark with a term of 45 days. The performance difference is compared to the performance of a peer group of money market managers, relative to a common money market index. Money market performance was $12 million better than the benchmark for 2010–11. The program returned six basis points more than the 45 day benchmark.

Market Risk

Market risk is the risk of loss due to changes in interest and foreign exchange rates. The OFA aims for a balanced debt maturity profile to mitigate the interest rate risk inherent in refinancing maturing debt and the floating-rate debt.

The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign-exchange exposure of 5 per cent of debt issued for Provincial purposes.

The interim interest rate resetting exposure (net of liquid reserves) was 8.3 per cent of debt as at March 31, 2011. The interim foreign exchange exposure was 1.0 per cent of debt as at March 31, 2011.

Debt maturities were $15.6 billion, while debt redemptions were $0.6 billion in 2010–11. In 2009–10, debt maturities were approximately $14.6 billion, while debt redemptions were $0.4 billion.

All exposures were well within the Province's approved policy limits during 2010–11.

Credit Risk

Credit risk is the risk of loss due to default of bond issuers or counterparties of derivatives or other financial transactions. The lowest acceptable credit rating of counterparties for Ontario is A–. However, Ontario typically enters into swap transactions with new counterparties rated AA– or higher. Ontario's increased hedging transactions related to international borrowing has resulted in greater credit risk to our derivative counterparties. In order to manage and mitigate credit risk associated with derivative transactions, the Province negotiated swap collateral agreements known as Credit Support Annexes (CSAs) with seven of its derivatives counterparties and agreements on thresholds have been reached with another four. A CSA is a bilateral agreement between two parties that provides the terms and conditions for posting collateral in order to offset the credit exposure related to derivative transactions.

The Province's interim net credit risk exposure associated with the derivative portfolio as at March 31, 2011 was $422 million, compared to $411 million as at March 31, 2010. Net credit risk exposure represents the loss that the Province would incur if every counterparty to which the Province had credit risk exposure were to default at the same time, less the mitigating impact of netting provisions as prescribed in contractual master agreements.

As at March 31, 2011, 96 per cent of Ontario's credit exposure was to counterparties rated AA– or better, compared to 91 per cent as at March 31, 2010.

Liquidity Risk

Liquidity risk is the risk liquid reserves will not be sufficient to meet the Province's cash requirements. This risk is controlled through the management of operational cash flows, liquid reserve levels and the short-term borrowing program.

The Province's Treasury bill and U.S. Commercial Paper programs have authorized limits of $30.5 billion and $5 billion, respectively. As at March 31, 2011, the Province's Treasury bill and U.S. Commercial Paper programs stood at $14.8 billion and $3.2 billion, respectively.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. The OFA manages operational risks through divisional procedures and contingency plans as well as appropriate staffing and training, all of which are reviewed on an ongoing basis. The OFA's Business Continuity Plan ensures critical operations are completed in a timely manner in the event of an unforeseen business disruption.

The reliability of information technology and computing systems is crucial to ensure the OFA carries out its mandate efficiently and effectively. Systems were maintained at a high level during 2010–11.

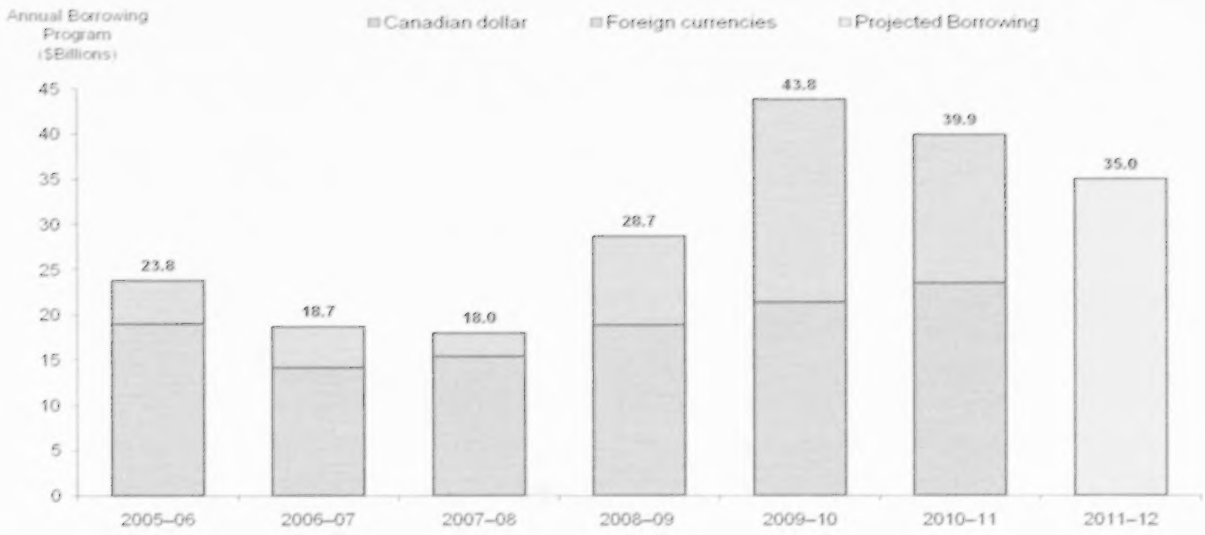
Credit Rating Agency Relations

The Province requires ratings from recognized credit rating agencies to issue debt in the capital markets. The OFA ensures credit rating agencies understand government policies and budget direction as well as economic and fiscal performance, and properly reflect these in their reports and decisions. Through the OFA, the Province maintains a one-window contact with the agencies to ensure information provided to them is consistent and coordinated.

Following their review of the *2011 Budget*, the rating agencies released their reports on Ontario's rating. S&P was the first to confirm Ontario's AA– rating with a stable outlook on April 20, 2011; DBRS confirmed our AA(low) rating with a stable outlook on May 3, 2011; and Moody's confirmed Ontario's Aa1 rating with a stable outlook on May 17, 2011.

Capital Markets and Borrowing & Debt Management Objectives for 2011–12

The total long-term borrowing requirement for 2011–12 is forecast at $35.0 billion due to the Province's deficit, debt maturities and capital investments.



The OFA will continue to diversify its domestic borrowing program using a combination of syndicated issues, bond auctions, floating-rate notes, medium-term notes and Ontario Savings Bonds. It is expected that up to 60 per cent of the program will be borrowed in the domestic markets.

Ontario will continue to be flexible, monitoring domestic and international markets, issuing bonds in different terms and currencies, and responding to investor preferences. Investor relations will remain a priority, with road shows planned for Canada, the United States and Europe.

Cost-effective and prudent debt management strategies will continue to be key objectives in 2011–12. The OFA will comply with risk management policies and portfolio program limits approved by the Boards of Directors of the OFA and OEFC. Risk management policies will be reviewed and revised as required in response to an evolving regulatory and capital markets environment. The Province will actively work on signing CSAs with other major counterparties.

The OFA will also manage the Province's liquid reserves conservatively. With OPG, the OFA will continue to administer ONFA investments consistent with its objectives so the Province's contingent liabilities under ONFA are prudently managed. As well, the OFA will invest on behalf of certain public bodies.

Financial Reporting

The OFA continued to be actively involved in discussions with the accounting community regarding developments that could have a future impact on the reporting of the Province's debt and interest on debt (IOD).

Financial Reporting Objectives for 2011–12

The OFA will continue to work with the Office of the Provincial Controller and the broader accounting community to ensure the Province's needs for transparency and accountability are appropriately reflected when any accounting changes are considered by the Public Sector Accounting Board (PSAB).

The OFA will also continue to maintain a leading edge Business Continuity Plan to ensure that timely payments are made to the BPS (including hospitals, municipalities and school boards), to manage the Province's financial risks in real time, and to ensure all of the Province's multibillion dollar financial transactions are settled and processed when due, even in the event of unforeseen disruptions.

Cash Management and Banking Services

The OFA provides centralized cash management services that minimize IOD costs. It is also responsible for the provision of banking services to the government, including the efficient management of banking relationships to ensure value for money.

In 2010–11, the OFA worked with Ontario Internal Audit Division and the Ministries of Finance and of Government Services in establishing a Project Management Office for the implementation of mandatory security standards issued by the credit card industry. The OFA's efforts in bringing this issue forward will ensure that these standards are implemented within a reasonable time in all applicable ministries and central agencies to meet industry security standards on credit card payments made by Ontarians to the Province.

The OFA, with the Province's credit card service provider, launched a pilot project for ServiceOntario to enable Ontarians to purchase government goods and services online using a debit card.

Cash Management & Banking Services Objectives for 2011–12

The OFA will issue a Request for Proposal for Banking Services for the Province to select the Province's two co-lead banks. These banks will receive the Province's revenues and flow its transfer payments to stakeholders and recipients.

The OFA will also work with the Ministries of Infrastucture and Finance towards enhancing the integration of budgeted capital expenditures into the Province's financing table.

The OFA will also develop and implement technologies that better serve both ministries and various client groups of the Province. Examples include identification and implementation of appropriate electronic payment channels and implementation of mandatory credit card industry security requirements.

Financial Advice

The OFA was active in providing financial advice and implementation assistance to ministries, Crown agencies and other public bodies on corporate and electricity finance policies and initiatives.

Transactions

The OFA provided ongoing analysis, advice and operational support in delivering financial assistance to the North American automotive industry and worked closely with the U.S. Treasury and Canadian federal government officials on the participation in General Motors' initial public offering in November 2010.

In *Budget 2010*, the Province announced that it was reviewing ways to maximize the returns on its major government business enterprises. The OFA has assisted, and will continue to assist the Province in this review by providing financial analysis and advice with respect to potential opportunities to maximize the returns on its government business enterprises and other assets.

Projects

The OFA's framework for financing public bodies mandates the OFA to provide long-term financing to school boards, colleges, hospitals and Provincial corporations, boards and commissions. Under this framework, the OFA provided loans to a number of public bodies, including Ontario colleges, school boards and Crown corporations totalling $1.8 billion in 2010–11.

The OFA provided analysis and advice to the Working Committee on Hospital Working Fund Deficits, which examined the magnitude of the hospital working funds issue and undertook an in-depth analysis of the root causes and factors contributing to hospital working fund deficits. The OFA also assisted in developing appropriate options to remedy hospitals with significant working capital deficits. The CEO of the OFA served as the co-chair of the Committee.

The OFA continued to advise the Ministry of Research and Innovation on venture capital investments made by the Ontario Capital Growth Corporation (OCGC) through the Ontario Venture Capital Fund and the Ontario Emerging Technologies Fund. The CEO of the OFA is on the Board of OCGC.

The OFA assisted the Ministry of Training Colleges and Universities and the Ministry of Health and Long-Term Care in expanding the Ontario Student Loan Program and Ontario Student Loan Trust to include medical residents.

The OFA also evaluated forestry sector applications for grants and loan guarantees under the government's forestry sector support programs.

The OFA continued to provide analysis and advice in respect of a number of Infrastructure Ontario projects. The CEO of the OFA is on the Board of Infrastructure Ontario.

The OFA reviewed and provided advice on applications received under the government's Strategic Jobs and Investment Fund program, as well as on the due diligence process relating to the program.

The OFA, on behalf of the Ministry of Finance and alongside a team of other Provincial representatives, led the negotiations on an agreement to extend Teranet's exclusive licences to provide electronic land registration and writs services in Ontario, which successfully closed in December 2010. The Province received a $1 billion upfront payment, which has been used to reduce the Province's debt and borrowing requirements.

The OFA, on behalf of the Province, has received several applications for the Aboriginal Loan Guarantee Program which are under review by staff and a third party due diligence provider. Two conditional offer letters for loan guarantees have been sent to applicants from the Minister of Finance.

The OFA provided services to OEFC, including facilitating loan agreements between OEFC and OPG to refinance existing maturities with OEFC and to finance new electricity supply projects.

The OFA assisted in the continued implementation of ONFA. It reviewed OPG's annual budget for eligible expenditures under ONFA for nuclear waste management and the Pickering Units 2 and 3 safe storage state, and the OFA continued to monitor and provide due diligence on the Provincial Guarantee to the Canadian Nuclear Safety Commission (CNSC). The Province provides a guarantee to the CNSC in partial satisfaction of OPG's financial guarantee requirements to the CNSC on its decommissioning and nuclear waste obligations. As at March 31, 2011, the amount of the current direct Provincial guarantee to the CNSC was $1.5 billion. The OFA continues to monitor the requirement for a direct Provincial Guarantee, working with OPG and the CNSC as required.

The OFA supported the development and implementation of the Ontario Clean Energy Benefit (OCEB), as announced in the *2010 Ontario Economic Outlook and Fiscal Review*, to assist residential, farm and small business consumers with the transition to a cleaner electricity system by providing a benefit equal to 10 per cent of the total cost of electricity on their bills, including tax, effective January 1, 2011.

Financial Advice Objectives for 2011–12

In 2011–12, the OFA will continue to provide financial advice and assistance to the Minister of Finance, ministries, Crown agencies and other public bodies on financial policies and initiatives.

Activities will include advising ministries and agencies on cost-effective financing policies and structures, comprehensive advice on structuring and implementing financial transactions and accurate determination of value-for-money benchmarks.

Particular attention will be given to public infrastructure financing initiatives, including projects pertaining to the preparation for the Pan-American Games that will be hosted by Toronto in 2015. OFA staff will continue to assist the Ministry of Health and Long-Term Care with implementation of the hospital working funds initiative that was announced in the *2011 Budget*. The OFA will also provide advice on measures to support government initiatives and to facilitate cost-effective borrowing by public sector organizations.

Financial analysis and advice will be provided to the Minister of Finance on the electricity sector and the impact of related policy initiatives on the Province's finances (including those of OEFC) and the economy. In addition, ongoing support will be provided for the implementation of ONFA and the OCEB. As required, the OFA will advise on electricity supply initiatives, including facilitating potential financing to OPG for new supply initiatives.

The OFA will continue to provide analysis and advice to the Minister of Finance on applications for the Aboriginal Loan Guarantee Program.

The OFA will continue to provide analysis and advice to the Strategic Jobs and Investment Fund. The OFA will continue to provide ongoing analysis, advice and operational support related to the delivery of financial assistance to the North American automotive industry.

Summary of Financial Results

The OFA manages the Province's debt and investment of liquid reserves, and recovers its costs from the Province for these services. The OFA also provides financial services to Crown agencies and other public bodies, and recovers costs on a fee-for-service basis.

The OFA also administers the assets and liabilities of the former Ontario Municipal Improvement Corporation (OMIC). OMIC made loans of $79 million to various school boards due in 2010–2013, and financed the loans through direct borrowing from the Canada Pension Plan. More details are provided in Note 2 in the OFA's Financial Statements.

The outstanding balance of the loans to public bodies as at March 31, 2011 was $5,596 million, a net increase of $966 million from $4,630 million in March 2010 (Note 6). The increase is largely due to additional loans to School Boards of $1,407 million, to Infrastructure Ontario of $23 million and to colleges of $11 million. These increases are partially offset by net repayments from the Federal Agencies – Auto Sector of $365 million; the Ontario Power Authority of $60 million; the Ontario Lottery and Gaming Corporation of $38 million; the Royal Ontario Museum of $7 million; Ontario Northland Transportation Commission of $3 million and City of Windsor of $1 million.

The OFA continued to provide investment management services to other public bodies managing assets in the aggregate amount of $3.1 billion (2010 – $3.1 billion) (Financial Statements Note 7).

The OFA recovered operating costs from agencies and related parties amounting to $5.1 million for the year ended March 31, 2011 (2010 - $4.9 million) (Note 8). The OFA's net income from operations for the year was $1,978 million (2010 – $1,402 million). This income is mainly from the interest rate spread on loans to public bodies.

The OFA has been involved in providing financial advice to the government on the review of government business enterprises as well as strategic advice on financial and investment policy issues associated with the electricity sector.

Financial Statements

Responsibility for Financial Reporting

Auditor's Report

Balance Sheet

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Cash Flow Statement

Notes to Financial Statements

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Responsibility for Financial Reporting

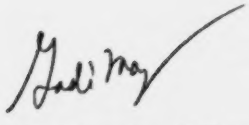
The accompanying Financial Statements of the OFA have been prepared in accordance with Canadian public sector accounting standards and are the responsibility of Management. The preparation of the Financial Statements necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The Financial Statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 17, 2011.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to Management and the Audit & Risk Management Committee of the Board.

The Board, through the Audit & Risk Management Committee, is responsible for ensuring Management fulfils its responsibilities for financial reporting and internal controls. The Audit & Risk Management Committee meets periodically with Management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board.

The Financial Statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the Financial Statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:



Chief Executive Officer

Auditor's Report

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the accompanying financial statements of the Ontario Financing Authority, which comprises the balance sheet at March 31, 2011, and the statement of net income and retained earnings and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Financing Authority as at March 31, 2011 and the results of its operations, and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

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Toronto, Ontario
June 17, 2011

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

Ontario Financing Authority

Balance Sheet

As at March 31, 2011

(in thousands of dollars)	2011	2010
ASSETS		
Current assets		
Cash	$ 3,916	$ 2,156
Interest receivable – OMIC (Note 2)	1,819	2,029
Due from agencies and related parties (Note 8)	1,913	1,674
Due from the Province of Ontario	1,669	1,763
Current portion of loans receivable	29,630	5,156
Total current assets	**38,947**	**12,778**
Fixed assets (Note 3)	2,377	3,053
Loans receivable (Note 2)	44,235	73,865
Total assets	$ **85,559**	$ **89,696**
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Accounts payable	$ 1,647	$ 1,722
Interest payable – OMIC (Note 2)	1,819	2,029
Due to the Province of Ontario-Recoveries	1,274	1,254
Current portion of long term debt	29,630	5,156
Total current liabilities	**34,370**	**10,161**
Long term debt (Note 2)	44,235	73,865
Deferred revenue (Note 4)	2,400	3,094
Retained earnings	4,554	2,576
Total liabilities and retained earnings	$ **85,559**	$ **89,696**

See accompanying notes to financial statements.

Approved on behalf of the Board:

Peter Wallace
Chair

Gadi Mayman
Chief Executive Officer

Ontario Financing Authority

Statement of Net Income and Retained Earnings

For the year ended March 31, 2011

(in thousands of dollars)	2011	2010
REVENUE		
Cost recovery from the Province of Ontario (Note 5)	$ 19,995	$ 19,714
Interest revenue (Note 2)	9,252	8,996
Total revenue	**29,247**	**28,710**
EXPENSES		
Salaries, wages and benefits	18,503	18,160
Interest on long term debt (Note 2)	7,263	7,593
Administrative and general	5,466	5,416
Amortization of fixed assets (Note 4)	1,110	1,016
SubTotal	**32,342**	**32,185**
Less: cost recovery from Agencies & related parties (Note 8)	(5,073)	(4,877)
Total expenses	**27,269**	**27,308**
Net income	1,978	1,402
Retained earnings, beginning of year	2,576	1,174
Retained earnings, end of year	$ 4,554	$ 2,576

See accompanying notes to financial statements.

Ontario Financing Authority

Cash Flow Statement

For the year ended March 31, 2011

(in thousands of dollars)	2011	2010
Cash flows from operating activities		
Net income	$ 1,978	$ 1,402
Adjustment for amortization of fixed assets	1,110	1,016
Increase in due from agencies & related parties	(239)	(183)
Decrease in due from the Province (net of accounts payable)	19	18
Increase/(decrease) in recoveries due to the Province	20	(28)
Increase/(decrease) in deferred revenue	(694)	245
Cash flows from operating activities	2,194	2,470
Cash flows from investing activities		
Purchase of capital assets	(434)	(1,279)
Cash flows used in investing activities	(434)	(1,279)
Increase in cash	1,760	1,191
Cash, beginning of year	2,156	965
Cash, end of year	**$ 3,916**	**$ 2,156**

See accompanying notes to financial statements.

Ontario Financing Authority
Notes to Financial Statements
For the year ended March 31, 2011

BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency of the Crown on November 15, 1993 by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario (the "Province");
- manages the Provincial debt;
- provides financial and centralized cash management services for the Province;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies to borrow and invest money;
- acts at the direction of the Province in lending to certain public bodies;
- invests on behalf of some public bodies.

In addition, the OFA's objects include:

- providing such other financial services as are considered advantageous to the Province or any public body; and
- any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: Because the OFA is a government organization, these financial statements are prepared in accordance with Canadian public sector accounting standards.

Net Debt Presentation: The statement of changes in net debt is not presented since this information is readily apparent from information provided in these financial statements.

Cash: Cash includes cash on deposit and highly liquid investments with maturities of less than one year . They are recorded at cost, which approximates current market value.

Fixed assets: Fixed assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below.

Furniture and equipment	5 years
Computer hardware	3 years
Leasehold improvements	Term of lease plus one renewal period

Funding received from the Province and the Agencies for the acquisition of fixed assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the fixed assets.

Measurement uncertainty: The preparation of these financial statements requires management to make estimates that are based on the best information available at the time of preparation of the financial statements.

2. LONG-TERM DEBT AND RELATED INTEREST

In accordance with the *Capital Investment Plan Act, 1993*, the Ontario Municipal Improvement Corporation (OMIC) assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) which were used to make loans to municipalities and school boards under similar terms as its debt.

The maturities and average interest rates on both the outstanding loans receivable and outstanding debt are set out below:

(in thousands of dollars)

Maturing in:	Principal Maturing	Average Interest Rate (%)
2012	$ 29,630	9.97
2013	44,235	9.22
Total outstanding	**$ 73,865**	**9.58**
Less current portion	**29,630**	
	$ 44,235	

Interest payable to CPP of $1.8 million (2010 – $2.0 million) is equal to the interest receivable from the municipalities and school boards.

The $9.3 million (2010 – $9.0 million) interest revenue equals the $7.3 million (2010 – $7.6 million) interest expense on the CPP borrowings, plus $2.0 million (2010 – $1.4 million) interest rate spread charged on loans to related parties as explained in Note 6 plus interest on the balance of cash.

3. FIXED ASSETS

The net book value (NBV) of fixed assets is as follows:

(in thousands of dollars)

	Cost	Accumulated Amortization	NBV March 31, 2011	NBV March 31, 2010
Furniture and equipment	$ 1,051	$ 601	$ 450	$ 632
Computer hardware	11,193	10,208	985	1,364
Leasehold improvements	1,720	778	942	1,057
Total	**$ 13,964**	**$ 11,587**	**$ 2,377**	**$ 3,053**

4. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province and the Agencies for the acquisition of fixed assets and the amount of lease inducement to be amortized to operations over the remaining two-year term of the lease.

(in thousands of dollars)

	Fixed Assets	Lease Inducement	Total
Balance, beginning of year	$ 3,053	$ 41	$ 3,094
Additions	434	–	434
Amortization	(1,110)	(18)	(1,128)
Balance, end of year	**$ 2,377**	**$ 23**	**$ 2,400**

The $1.1 million amortization of deferred fixed assets revenue is included in the cost recovery from the Province of Ontario on the Statement of Net Income and Retained Earnings, while the $18,000 amortization of deferred lease inducement is netted against administrative and general expense.

5. DEBT AND INVESTMENT MANAGEMENT FOR THE PROVINCE

The OFA manages debt amounting to $236.3 billion as at March 31, 2011 and investments amounting to $30.9 billion as at March 31, 2011 on behalf of the Province, including the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the *Ontario Nuclear Funds Agreement*. The Province, OPG and certain OPG subsidiaries entered into the agreement in March 2002 to set aside funds necessary to dispose of nuclear waste and used fuel and to decommission nuclear power stations. The agreement came into force on July 24, 2003.

Cost recovery from the Province for all debt management and investment activities for the year ended March 31, 2011 was $20 million (March 2010 – $19.7 million).

6. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated financial statements, these transactions are not reflected in these financial statements.

Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating $14.5 billion expiring from 2027 to 2037. Principal repayments received from public bodies by the OFA are forwarded to the Province. The interest rates charged to public bodies will generally be slightly higher than the rate charged on the advances from the Province to fund the loans ("the spread").

The OFA will generally retain the spread in order to recover the administrative costs of managing these loans. In some cases the rate charged to the borrower will be similar to the rate that would be charged on the loan by a commercial lender which would reflect the relative risk associated with the loan.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements consisting of a number of promissory notes for terms not exceeding one year. The promissory notes are later converted to term debt and repayment terms are finalized. As of March 31, 2011, the principal amounts receivable by the OFA on behalf of the Province represent debentures and short term loans. In addition to the outstanding loans below, interest accrued on these loans amounted to $72.9 million (2010 – $53.4 million).

These are related party transactions, with the exception of those with the Corporation of the City of Windsor and the Federal Agencies-Auto Sector.

(in thousands of dollars)

	March 31, 2011	March 31, 2010
Centennial Centre of Science and Technology	$ 3,000	$ 3,500
Colleges of Applied Art and Technology	81,967	70,677
Corporation of the City of Windsor	17,184	18,386
Federal Agencies-Auto Sector	1,086,074	1,451,359
Infrastructure Ontario	123,000	100,000
Niagara Parks Commission	6,271	6,500
Ontario Lottery and Gaming Corporation	149,515	187,840
Ontario Northland Transportation Commission	27,241	30,646
Ontario Power Authority	30,059	90,000
Royal Ontario Museum	42,200	48,840
School Boards	4,029,781	2,622,292
Total	**$ 5,596,292**	**$ 4,630,040**

Loans to Public Bodies:

The Centennial Centre of Science and Technology is a Crown agency of the Province under the Centennial Centre of Science and Technology Act, 1990. The $3.0 million (2010 – $3.5 million) loan was made to fund the construction of the Agents of Change project, bears interest at 4.35% and matures in March 2017.

Colleges of Applied Arts and Technology have been loaned $82 million (2010 – $71 million) for various campus projects including new and expanded student residences, computer equipment, parking facilities, and an energy saving capital project. These loans bear interest ranging from 1.36 per cent to 5.49 per cent and mature from 2011 to 2040.

The Corporation of the City of Windsor is a municipality within the meaning of the Municipal Act. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility consisting of a provincial division courthouse and city police headquarters. This is a 20 year loan bearing interest at 6.41 per cent and maturing in March 2021. The outstanding balance is $17.2 million (2010 – $18.4 million).

The Province advanced a total of $4,577 million in 2009 (and received $196 million in special interest notes) to assist in providing funding to the Canadian auto sector. In July, 2009, loans of $3,187 million were exchanged for equity, and by the end of March, 2011, loans of $134 million in 2010 and $365 million in 2011 were repaid, leaving $1,086 million in loans outstanding (2010 – $1,451 million) bearing floating interest rates ranging from 5 to 7 per cent.

Subsequent to the year-end, a loan of $561 million was repaid, leaving $525 million in loans outstanding of which $455 million matured on June 29, 2009 and $70 million matured on July 10, 2010. Further information will be received regarding the overdue loans.

Infrastructure Ontario (IO) has been provided a 10-year Revolving Credit Facility to a maximum amount of $200 million. IO has drawn a total of $123 million (2010 – $100 million) bearing interest at rates ranging from 1.98 to 4.00 per cent.

The Niagara Parks Commission, a Crown agency of the Province, operating under Niagara Parks Act 1990, has been provided a loan of $6.3 million (2010 – $6.5 million) to finance additional capital costs incurred for the redevelopment of phase I of Table Rock House in Queen Victoria Park, Niagara Falls. This is a 17-year loan, bears interest at 5.07 per cent and matures in April 2027.

The Ontario Lottery and Gaming Corporation (OLG) is a Crown agency of the Province under the Ontario Lottery and Gaming Corporation Act, 1999, and has been provided loans totaling $150 million (2010 – $188 million) to fund several projects and bears interest at rates ranging from 1.41 to 3.22 per cent.

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the Ontario Northland Transportation Commission Act, 1990. ONTC's total borrowing is comprised of loans and two operating lines of credit aggregating to $27.2 million (2010 – $30.6 million). Loans of $14.9 million mature from 2014 to 2031 and bear interest ranging from 4.9 to 6.29 per cent. The operating lines of credit totaling $12.3 million bear floating interest rates ranging from 1.01 to 1.36 per cent.

The Ontario Power Authority was provided a maximum $975 million credit facility to fund the Regulated Price Plan variance account. The credit facility expires on December 31, 2013. The Authority has drawn a total of $30 million (2010 – $90 million) bearing interest at 1.21 per cent

The Royal Ontario Museum (ROM) has borrowed $42.2 million (2010 – $48.8 million) comprised of $33.2 million at fixed rates ranging from 5.04 to 5.12 per cent and $9 million at a floating rate currently at 1.36 per cent. All outstanding loans are scheduled to be repaid by March 2016.

School boards have been provided loans under various programs beginning in 2006. During the year ended March 31, 2011, school boards were provided with additional loans and made two semi-annual blended payments of principal and interest, leaving the total outstanding amount at $4,030 million (2010 – $2,622 million). These loans bear interest ranging from 3.59 to 5.38 per cent and mature from 2031 to 2036.

Committed Credit Facilities:

At the direction of the Province, the OFA has committed to finance a number of public bodies for which funds have not yet been advanced. The details are as follows:

The Algonquin College of Applied Arts and Technology, a Crown Agency established under the Ontario Colleges of Applied Arts and Technology Act, 2002, was provided a $22 million non-revolving loan credit facility expiring on July 31, 2012 to finance the Student Commons at the Woodroffe Campus. The college has not utilized this credit facility.

The Deposit Insurance Corporation of Ontario (DICO) was provided a maximum $250 million revolving credit facility expiring on Oct 31, 2013 to ensure DICO's capacity to address systemic difficulties in the credit union system or the failure of large institutions that require resources above those in the Deposit Insurance Reserve Fund which is currently valued at approximately $97 million. All principal and interest is required to be repaid by December 31, 2024. DICO has not utilized this credit facility.

7. INVESTMENT AND DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides services to agencies, related parties and other public bodies including investment management services as listed below in return for fees amounting to $305,000 for the year ended March 31, 2011 (2010 – $183,000). Funds managed on behalf of these other public bodies were $3.1 billion at March 31, 2011 (2010 – $3.1 billion).

Deposit Insurance Corporation of Ontario
Infrastructure Ontario
Northern Ontario Heritage Fund
Ontario Capital Growth Corporation
Ontario Immigrant Investor Corporation
Ontario Realty Corporation
Ontario Securities Commission
Ontario Trillium Foundation
Pension Benefits Guarantee Fund

8. DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides debt management services on a cost recovery basis to agencies and related parties as set out below:

Agencies:

Ontario Electricity Financial Corporation (OEFC)

The OFA provides financial services and advice on a cost recovery basis to OEFC and manages its debt portfolio of approximately $27.1 billion.

Infrastructure Ontario (IO)

The OFA provides financial services and advice on a cost recovery basis to IO and manages its debt of $3.1 billion including loans from the Province, a provincial agency and third parties.

Total costs recovered and receivables outstanding at March 31, 2011 are set out below:

(in thousands of dollars)

	March 31, 2011	March 31, 2010
Costs Recovered:		
Agencies:		
OEFC	$ 3,693	$ 3,621
IO	1,075	1,073
Other (Note 7)	305	183
Total	**$ 5,073**	**$ 4,877**
Receivables:		
Agencies:		
OEFC	$ 923	$ 905
IO	270	268
Other (Note 7)	81	81
Related parties (Note 6)	639	420
Total	**$ 1,913**	**$ 1,674**

9. FUTURE EMPLOYEE BENEFITS

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan established by the Province of Ontario. The Ministry of Government Services (MGS) is responsible for funding the employer's contribution to the Pension Fund and accordingly, the OFA has no additional liability for these future costs. In addition, the cost of post-retirement, non-pension benefits is paid by MGS and is not reported in these financial statements.

10. CONTINGENCIES AND COMMITMENTS

At March 31, 2011, there were no claims under which the OFA would be financially liable. The Province continues to guarantee the term deposits issued by the Province's Savings Office prior to 2003.

11. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the financial statement presentation adopted for the 2010–11 fiscal year.

Corporate Governance

Corporate Governance

Financial Reporting Requirements

Board of Directors

Corporate Governance

The OFA is an agent of the Crown and is classified as an operational enterprise agency.

Corporate governance involves processes that permit the effective supervision and management of the OFA's activities by senior management, the Board of Directors and the Minister of Finance. It includes identifying individuals and groups responsible for activities and specifying their roles.

Accountability and Responsibilities

The OFA's accountability structure flows from its governing statute, CIPA. The Minister of Finance is the minister responsible for the administration of CIPA with respect to the OFA. CIPA, together with directives issued by Management Board of Cabinet, Treasury Board, the Minister of Finance and the Public Service Commission relating to Crown agencies, form a framework under which the OFA is governed.

Each year, the Minister is required to submit the Annual Report to the Lieutenant Governor in Council and then table the report in the Legislature. In addition, the Minister reviews and approves the annual business plan. The Minister also maintains communications with the OFA, through the Chair of the Board, regarding government policies and expectations relevant to the OFA.

The Chair is accountable to the Minister of Finance for the performance of the OFA in fulfilling its mandate. CIPA requires the Deputy Minister of Finance be the Chair of the OFA. The Chair is responsible for providing advice and information to the Minister with regard to the operation and affairs of the OFA. In addition, the Chair provides leadership and direction to the Board and the Chief Executive Officer (CEO), and ensures the OFA complies with governmental policies and directives. As Deputy Minister of Finance, the Chair ensures organizational capacity in the Ministry to monitor the OFA, and ensure it manages its risks appropriately.

The Board is appointed by the Lieutenant Governor in Council and reports to the Minister through the Chair. The OFA Board performs a supervisory role. It oversees the management of the OFA and helps to ensure the OFA's mandate, as determined by the Province, is implemented effectively. The Board meets at least quarterly and receives regular reports from the CEO and OFA staff concerning the operations of the OFA and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board approved Code of Conduct.

There are also two committees of the Board to assist it in supervising the management of the OFA. The Audit & Risk Management Committee approves an annual internal audit plan and liaises with the OFA's internal auditors and the Auditor General of Ontario regarding financial reporting and internal controls. It also reviews financial policies and financial statements and recommends them to the Board. Another function of the Audit & Risk Management Committee is the review of the OFA's major risks and mitigation strategies. The Human Resources Committee was created in 2006–07 to assist the Board in ensuring appropriate measures are in place to recruit, develop and retain qualified staff in critical areas.

The CEO is appointed by the Lieutenant Governor in Council on the recommendation of the Minister. The CEO is accountable to the Board, including the Chair, for the day-to-day management of the OFA and for the performance of any other functions assigned by the Board. The CEO is responsible for managing the ongoing activities of the OFA, including the supervision of staff. In addition, the CEO ensures that the OFA's policies and procedures remain relevant and effective.

The OFA's employees are appointed pursuant to the *Public Service of Ontario Act, 2006*.

Financial Reporting Requirements

The OFA prepares annual financial statements in accordance with the recommendations of the PSAB of the Canadian Institute of Chartered Accountants. They are reviewed and recommended by the Audit & Risk Management Committee and approved by the Board. Unaudited financial statements are prepared quarterly and presented to the Audit & Risk Management Committee and the Board. The annual financial statements are audited by the Auditor General who expresses an opinion on whether they present the financial results fairly and in accordance with Canadian generally accepted accounting principles. The findings are reviewed by the Audit & Risk Management Committee and the Board. These audited financial statements are tabled in the Ontario Legislature as part of the Annual Report and are included as a schedule to the Public Accounts of the Province.

Internal Controls

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance regarding the reliability of financial reporting, to safeguard the OFA's assets and to control its liabilities.

In meeting its responsibility for the reliability and timeliness of financial information, the OFA uses a comprehensive system of internal controls, including organizational and procedural controls. The system of internal controls includes:

- comprehensive business planning;
- written communication of policies and procedures governing corporate conduct and risk management;
- segregation of duties;
- maintenance and retention of detailed records;
- responsible delegation of authority and personal accountability;
- careful selection and training of personnel; and
- regularly updated accounting policies.

As part of its annual business plan, the OFA conducts an assessment of corporate-wide risks and develops appropriate mitigation strategies.

The Ontario Internal Audit Division of the Ministry of Finance develops an annual internal audit plan based on its risk assessment and input from the OFA Audit & Risk Management Committee and Management. The internal audit plan is approved by the OFA Audit & Risk Management Committee. The Internal Audit Division reports to the OFA Audit & Risk Management Committee on the results of its audit work in the OFA. In 2010–11, the Internal Audit Division completed 446 audit days at the OFA, and 192 days at OEFC for functions executed by OFA staff on behalf of the OEFC.

Board of Directors

The following individuals were members of the Board in 2010–11:

Peter Wallace
Chair, OFA Board
Deputy Minister of Finance and Secretary of Treasury Board

Date of Initial Appointment to OFA Board of Directors: September 2008 (Pursuant to the Capital Investment Plan Act, 1993, the Deputy Minister of Finance is the Chair of the OFA Board of Directors.)

Peter Wallace was appointed Deputy Minister of Finance and Secretary to Treasury Board effective September 15, 2008. Before that, Peter was Deputy Minister of Energy, starting in January, 2007. Earlier, as Deputy Minister and Associate Secretary of the Cabinet, Policy, he played a key role in implementing government policy and legislation.

From February 2001 to February 2004, Peter served as Assistant Deputy Minister of Natural Resource Management with the Ministry of Natural Resources. Prior positions include Assistant Deputy Minister, Policy and Strategic Planning, Cabinet Office; Assistant Deputy Minister, Program Management and Estimates Division, Management Board Secretariat; and Director, Expenditure Management and Reporting, Ministry of Finance.

Peter began his public service career in 1981 after completing a BA (Honours) in Political Economy and a Master of Public Administration at the University of Toronto.

Mario Ferrara
Vice-Chair, OFA Board of Directors
Committee: Audit & Risk Management Committee, Chair;
Human Resources Committee, member

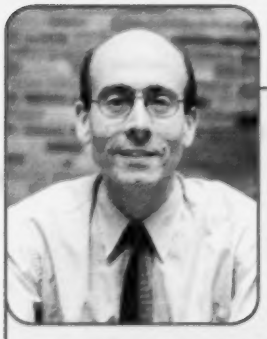
Date of Initial Appointment to OFA Board of Directors: April 2005

End of Current Term: May 2014

Before his appointment to the OFA Board, Mario was Managing Director and Head of the Government Finance Group at Scotia Capital in Toronto. The Group provided a wide range of financial advice and executed financing transactions for the firm's government and government-related clients.

Mario's investment management experience includes senior positions in the private and public sector. As Vice-President, Investments at E-L Financial Corporation, he was head of the investment group with direct responsibility for managing the fixed-income portfolios of the company's life and casualty insurance subsidiaries. Prior to joining E-L Financial, Mario spent 12 years at Ontario Hydro in a number of finance-related positions including portfolio manager of the fixed-income assets of the Ontario Hydro Pension Plan. Later at Ontario Hydro, he was Assistant Treasurer-Corporate with responsibility for management, development and execution of funding plans, investor relations and corporate insurance.

Mario holds a BCom. and MBA from McMaster University.



Gadi Mayman
Chief Executive Officer, OFA

Date of Initial Appointment to OFA Board of Directors: August 2000

End of Current Term: July 2014

As well as being the CEO of the OFA, Gadi also serves as the CEO and Vice-Chair of the OEFC.

Prior to joining the Ontario Ministry of Finance, Gadi worked at the Export Development Corporation in Ottawa and in the International Division of the TD Bank. He received a BASc. in Industrial Engineering from the University of Toronto and an MBA from the University of Western Ontario.

Gadi is on the boards of Infrastructure Ontario, Ontario Realty Corporation and the Ontario Capital Growth Corporation, and is Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and OPG Committee.

John M. Beck

Date of Initial Appointment to OFA Board of Directors: January 2011

End of Current Term: January 2014

John is founder, Chairman and Chief Executive Officer of Aecon Group Inc., Canada's largest publicly-traded construction and infrastructure development company. Aecon is a leader in providing services to private and public sector clients throughout Canada and internationally.

John began his career in 1963, after graduating from civil engineering at Montreal's McGill University. In 1971, his company went public and John embarked on a strategy of mergers and acquisitions as well as rapid organic growth.

Since then, Aecon's teams of engineers and construction managers have been involved in building landmarks such as Toronto's CN Tower, until recently the world's tallest freestanding concrete structure; Toronto, Montreal, Budapest and Prague's international airports as well as roads, hospitals, schools, oil sands plants, mines, high rise towers, universities, nuclear plants and seaway infrastructure in Canada.

John and Aecon are innovators in terms of public-private partnerships and design-build-finance initiatives. Aecon built the $1 billion 407 ETR near Toronto, the world's first open access, all electronic toll highway, and the $1.5 billion Cross Israel Highway, the world's most technically advanced all electronic highway. All told, John, who speaks two languages, and Aecon, have successfully completed projects over the years in more than a dozen countries.

In November 2008, John was cited by The Financial Post Magazine's "CEO Scorecard", as one of the top 20 most accomplished CEO's in Canada.

John is an active member of the business community. He was previously the Chairman of the Board of the Ontario Power Authority, a government agency with responsibility for planning and procuring all of the province's power needs for the next 20 years. He has also served on a number of non-profit boards involved in charities, health, education and the arts.

Lorraine Bell, CA

Committees: Audit & Risk Management Committee, Vice-Chair
Human Resources Committee, Chair

Date of Initial Appointment to OFA Board of Directors: October 2005

End of Current Term: October 2011

In addition to her OFA board appointment, Lorraine is also a Trustee, Chair of the Audit Committee, and member of the Governance Committee for Brookfield Real Estate Services Fund. She was recently appointed to the Board of Directors of IBI Group. Lorraine has many years of experience in capital markets and in particular, derivatives. She was a Vice-President and Director with General Re Financial Products Canada (GRFP), a derivatives organization. Prior to joining GRFP, she worked as a financial consultant, and was at a number of corporations including Prudential Global Funding and Citibank Canada. Before Citibank Canada, Lorraine was with Touche Ross & Co (now Deloitte & Touche) as a member of the audit group and she obtained her CA designation at that time.

She is an active volunteer and past Board member of a number of charitable organizations in Ontario. Lorraine is also a member of the Institute of Corporate Directors and a Director of the Associates of the University of Toronto, Inc.

Angela Holtham

Committee: Audit & Risk Management Committee, Member

Date of Initial Appointment to OFA Board of Directors: February 2011

End of Current Term: February 2014

Angela recently retired after 8 years as the Vice President, Finance, and CFO of The Hospital for Sick Children in Toronto. Prior to that, she held a number of positions in both the for-profit and not-for-profit sectors, including 20 years with Nabisco Canada, the last five of which she spent as Senior Vice President and CFO.

Angela holds an MBA from the University of Toronto, and a BMath from the University of Waterloo. She is a Certified Management Accountant and was awarded the prestigious FCMA designation for her accomplishments in the community, the accounting profession, and the workplace.

Angela has held a number of Board positions including chair of the Board of CMA Ontario, and Board Director of Sprinkles Global Health Initiative.

Phil Howell

Committee: Audit & Risk Management Committee, Member

Date of Initial Appointment to OFA Board of Directors: September 2009

End of Current Term: September 2012

Phil was appointed the Chief Executive Officer and Superintendent, Financial Services Commission of Ontario effective August 19, 2009.

Previously, Phil served as the Deputy Minister of Economic Development for the Ontario government. Prior to that appointment, he was the Deputy Minister of Tourism. He moved to Tourism from the Ministry of Finance where he was the Associate Deputy Minister of Finance, responsible for Treasury Board.

Trained as an economist with post graduate training from the London School of Economics and the University of Toronto, Phil's career has spanned over thirty years in both the public and private sectors beginning with the Bank of Canada. His Ontario Public Service (OPS) career began in the Economic Policy Branch in the former Ministry of Treasury, Economics and Intergovernmental Affairs.

He left the OPS in the mid 1980s and during the following several years worked with a major Canadian brokerage house, the Conference Board of Canada and a chartered bank. Phil returned to the OPS as director of the Industrial Policy Branch, Ministry of Industry, Trade and Technology where he spent several interesting and challenging years before returning to the Ministry of Finance as director of the Taxation Policy Branch in 1999. Subsequently, he served as the ADM of the Office of Economic Policy and the Chief Economist for the Province.

Richard J. Kostoff

Committee: Human Resources Committee, Vice-Chair

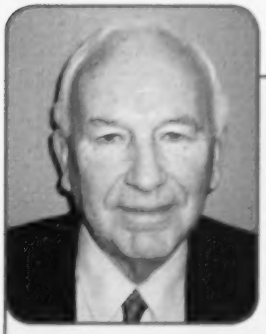
Date of Initial Appointment to OFA Board of Directors: June 2007

End of Current Term: June 2013

Richard is the founder and Chair of Temple Rock Holdings Inc., an active investment interest.

Richard is a former Deputy Chair of TD Securities Inc. Over the course of his career his senior management responsibilities have included fixed income sales and trading, derivative marketing and equity and debt capital markets origination. Richard is also a current board member of the OCAD University Foundation Board and the Chair of Theatrefront, a non-profit group. Additional appointments include the advisory board of CommunityLend and FemMed.

Richard has advised a number of government and corporate entities including GMP Inc., Infrastructure Ontario, GE Capital Canada, OPTrust, the Hospital for Sick Children and Theralase Technologies Inc.



Patrick Lavelle

Committee: Audit & Risk Management Committee, Member

Date of Initial Appointment to OFA Board of Directors: December 2005

End of Current Term: December 2011

Patrick is Chairman and Chief Executive Officer of his own strategic management consulting firm established in 1991. Until March of 2002, Patrick was Chairman and CEO of Unique Broadband Systems Inc. He is a Past Chairman of Export Development Canada and also served a 3 year term as Chairman of the Board of the Business Development Bank of Canada. Prior to establishing his own firm, Patrick was Vice-President, Corporate Development, Magna International Inc.

In 1985, Patrick was appointed Deputy Minister of Industry Trade and Technology for the Province. At the same time, he was the First Secretary of the Premier's Council which produced an economic blueprint for the Ontario economy. Patrick also served as an Executive Assistant to the Federal Minister of Labour and Health and Welfare, and Agent General for the Government of Ontario in Paris, France. Patrick is the past President and CEO of the Automotive Parts Manufacturers' Association of Canada.

Patrick is a director of a number of public and private Canadian and U.S. companies. He is a member of the Advisory Board of the International MBA program at York University.

Vincenza Sera

Date of Initial Appointment to OFA Board of Directors: February 2011

End of Current Term: February 2014

Vincenza has been Chair of the Ontario Pension Board since 2007 having served as a board member since 2004.

Vincenza is a former investment banker with 25 years expertise in capital markets, corporate finance and corporate governance; she has held senior positions with major Canadian firms, including National Bank Financial and CIBC.

She holds a Masters degree in Business Administration (Finance) from the University of Toronto, and an Honours Business Administration (Accounting) degree from the University of Windsor.

Vincenza has considerable experience on corporate and not-for-profit boards and is a member of the Institute of Corporate Directors.

Total Annual Remuneration paid to the Board of Directors: $20,550

Directors whose term expired during or after 2010–11

Robert Brown, FCA, Vice-Chair, OFA Board of Directors
Appointment expired: April 2011

Dagmar Teubner
Appointment expired: June 2010

Risk Management Policies and Procedures

OFA risk management policies and procedures provide for the management of risk exposures created by capital markets activities. Current policies and procedures address market, credit and operational risk exposures as they pertain to the Province's debt and derivatives portfolios and capital markets transactions.

The policies were developed following the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada, the Bank for International Settlements and in consultation with Canadian bank representatives on their risk management practices.

The Board approves risk management policies and monitors the performance of capital markets activities.

Market Risk Policy

Market risk is the risk of financial loss attributed to changes in interest rates and foreign exchange rates. This policy provides a framework for borrowing activities and integrates several aspects dealing with the management of market risk. The policy includes several limits:

- Foreign Exchange Limit: unhedged foreign currency exposure is limited to 5 per cent of debt issued for provincial purposes. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc.

- Net Interest Rate Resetting Limit: the interest rate resetting risk exposure is the sum of maturities and floating-rate debt (net of liquid reserves) over the next 12 months, and is limited to a maximum of 35 per cent of debt issued for provincial purposes.

- IOD Loss Limit: the total amount of financial losses resulting from market risk cannot exceed 3 per cent of budgeted IOD for a fiscal year. In addition, the CEO establishes a trigger level to ensure losses from market activities will not reach the debt cost loss limit.

The OFA identifies and quantifies current and potential exposures to market risk and ensures risk exposures and losses remain within approved exposure and loss limits. Exposure to market risk is measured and reported daily.

Credit Risk Policy

Credit risk is the risk of loss in which a counterparty does not meet or defaults on its obligations. Credit risk arises when the OFA undertakes financial and derivative transactions. The minimum credit rating of a counterparty for a new swap transaction is typically "AA–", and "R1-mid" (and "A-1" or "P-1") for money market investments. The resulting exposure is capped at mark-to-market limits depending on the counterparty's credit rating and capital base. Concentration limits are also in place to limit exposure. Credit exposure is measured and reported daily.

Policy on the Use of Derivatives and Other Financial Instruments

Use of derivatives and other financial instruments is restricted to those which the OFA can price and whose risk exposures can be measured by the OFA. Derivatives are used to manage exposures arising from existing and planned debt issues in a sound and cost-effective manner. Risks arising from the use of derivatives are monitored and managed prudently.

Risk Management Reporting Policy

At its regular quarterly meetings, the Board is kept informed of the OFA's activities:

- The CEO provides the Board with a progress report on the implementation of the Province's borrowing and debt management programs for the year, staffing and other administrative and operational matters. The CEO also reports on the OFA's compliance with applicable government directives.
- The Director of Risk Control reports on program exposures and performance as well as exceptions to policies.
- Management is kept informed of OFA's risk exposures and positions on a daily basis.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or external events. Each division manages operational risk through reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans and staff training.

The OFA maintains a Business Continuity Plan (which covers OEFC's operations) that is regularly updated to facilitate the continuation of essential operational functions with a minimum of disruption in the event of an emergency.

Appendices

Ontario's Credit Ratings

Additional Sources of Information

Ontario's Credit Ratings

A credit rating is a current assessment of the creditworthiness of a borrower with respect to a specified obligation. It indicates the capacity and willingness of a borrower to pay interest and principal in a timely manner.

Long-Term Ratings

Long-term ratings are assigned a letter grade ranging from investment grade, to speculative grade, to highly speculative or default. Ratings within each category may include a "+" or "–" (or a high or low) to indicate the relative strength of rating within that category. The current long-term ratings of the Province are as follows:

- Moody's Investors Service — Aa1
- Standard & Poor's — AA–
- DBRS — AA (low)

Short-Term Ratings

Short-term ratings are for debt maturities of less than one year. Ratings are graded into several categories, ranging from the highest-quality obligations to default. The current short-term ratings of the Province are as follows:

- Moody's Investors Service — P-1
- Standard & Poor's — A-1+
- DBRS — R-1 (mid)

Additional Sources of Information

www.ofina.on.ca

The website provides information on Ontario's borrowing program and debt, and contains publications from the OFA.

Ontario Budget

The Borrowing and Debt Management chapter discusses the Province's borrowing and debt management activities for the fiscal year ended, and outlines the outlook for the upcoming fiscal year.

Quarterly Finances – OFA Bulletin

The OFA Bulletin provides quarterly updates of the government's annual budget forecast. The full set of quarterly finances information is also available on the Ministry of Finance website, www.fin.gov.on.ca.

Form 18-k

This is the Province's annual report to the U.S. Securities and Exchange Commission (SEC).

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